

P 210924Z JAN 09
FM AMEMBASSY ULAANBAATAR
TO SECSTATE WASHDC PRIORITY 2659
INFO AMEMBASSY BEIJING PRIORITY
AMEMBASSY MOSCOW PRIORITY
AMEMBASSY SEOUL PRIORITY
AMEMBASSY TOKYO PRIORITY
MILLENNIUM CHALLENGE CORP WASHINGTON DC PRIORITY
SECDEF WASHINGTON DC PRIORITY
NSC WASHINGTON DC PRIORITY

C O N F I D E N T I A L ULAANBAATAR 000019

STATE FOR EAP/CM; PLEASE PASS TO COMMERCE, AGRICULTURE

E.O. 12958: DECL: 01/21/2019

TAGS: [PGOV](#) [PREL](#) [EMIN](#) [MARR](#) [RS](#) [MG](#)

SUBJECT: PRIME MINISTER DISCUSSES AFGHANISTAN, MCC, IMF,
AND MINING INVESTMENTS

Classified By: Political Counselor Andrew Covington, Reasons 1.4(b/d)

¶1. (C) Summary. Prime Minister Bayar invited the Ambassador to a meeting to discuss major issues at the changeover of U.S. Administrations. Concerning the rail project of Mongolia's Millennium Challenge Compact (MCC), Bayar cited objections raised by the Russians, who own half of Ulaanbaatar Railways (UBTZ). The Ambassador underscored that the audit of UBTZ must move forward as a Condition Precedent of Mongolia's MCC. The Ambassador separately indicated to Bayar that we are expecting the Secretary of Defense to send a letter to Defense Minister Bold requesting renewed Mongolian participation in Afghanistan (likely in the forms of continued artillery training and a site security company similar to Mongolia's mission in Iraq). The discussion also covered Mongolia's pending requests for international financial assistance related to the financial crisis, the Tavan Tolgoi coal deposit, and the wheat monetization program used to fund certain USG aid efforts in Mongolia.

Millennium Challenge Compact

¶2. (C) Bayar opened the substance of his January 16 meeting with Ambassador Minton with a request that MTZ be audited in lieu of UBTZ, since the latter is half-owned by the Russians, and the Russians were continuing to object to the audit. Note: post has known of Russian resistance to the audit for some time, but the Mongolian side has repeatedly insisted that they could make the audit happen despite Russian objections. MTZ is a company recently created to acquire assets to lease out to UBTZ, while UBTZ is the entity that runs rail operations countrywide. The GOM owns the other half of UBTZ. The Ambassador pointed out that the rail project will benefit the Russians by enhancing shipment of Russian exports to and through Mongolia and that we do not have a long-term interest in staying involved with UBTZ past the end of the MCC period. Later that afternoon, the Ambassador delivered a letter to Bayar indicating that the audit must be conducted on UBTZ as a Condition Precedent of the MCA's rail program.

¶3. (C) We have not yet received a substantive reply from the PM's office. The auditing team arrived in Ulaanbaatar on Monday but has not yet been allowed to look at UBTZ's books. We understand that PM Bayar expects to lobby the Russians on this issue in coming days.

Afghanistan

¶4. (C) The Ambassador then indicated to Bayar that we expect the Secretary of Defense to send a letter to Defense Minister Bold detailing our request for military cooperation in Afghanistan. Although we will not know the exact nature of

the request until we see the letter, the Ambassador informed Bayar that the request would likely take the form of (1) artillery training, similar to Mongolia's previous mission in Afghanistan, and (2) a site security company, similar to the mission the Mongolians performed for the Poles in Iraq.

The IMF and Financial Assistance

15. (C) The Ambassador asked Bayar if he could elaborate on the scale and scope of financial assistance Mongolia would be requesting. (Note: An IMF team has come to Mongolia to ascertain what sort of assistance would be appropriate to help alleviate Mongolia's revenue crunch that is due in large part to the collapse of copper prices. Separately, Mongolia may be considering a \$3 billion loan package from China. We wanted to understand better how these two requests might fit together. End Note.) Bayar stated he would have Foreign Minister Batbold and Finance Minister Bayartsogt contact the Embassy to explain the details of Mongolia's intentions to us. We are following up with the ministries to set a date for this briefing.

Tavan Tolgoi and Peabody Energy

16. (C) The Ambassador informed Bayar that Peabody Energy is receiving official advocacy from the Embassy and as such reiterated that Peabody is an industry leader capable of getting an operation started quickly. The Ambassador noted that Peabody could and would manage the diplomatic dimensions of any possible partners, and that Peabody could also manage the operation on its own if asked to do so. If the GOM were to make its intentions in this regard clear to Peabody, then Peabody would work with that. (Note: It is increasingly likely that Peabody will engage China's Shenhua as a minority partner in Peabody's proposal to the GOM to operate at Tavan Tolgoi.)

Wheat Monetization

17. (C) In response to a request to the Embassy from the Agriculture Minister that the USG not sell USDA wheat that is en route to Mongolia to be monetized to fund certain USAID program and thereby affect wheat prices countrywide, the Ambassador informed Bayar that this wheat sale must go ahead if the program of aid via crop monetization is to continue in the future. The Ambassador indicated that future agreements might be arranged to bring in other crops such as soy if the Mongolians preferred and that crop were available for the program.

MINTON